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GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. This new accounting pronouncement, which took 15 years to complete, will have a substantial impact on both the format and content of the information included in governmental financial statements. Tom Allen, Chairman of the GASB, stated, "This is the most significant change to occur in the history of governmental financial reporting." While the GASB's hope is to make financial statements more useful, it is clear that the transition to this new financial statement format will be difficult for most entities.

The new financial reporting model requires general-purpose governments to present the following basic financial statements and required supplementary information in order for the financial statements to be in accordance with generally accepted accounting principles (GAAP):

- Management's Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds.

Libraries have the option of presenting separate Government-wide Financial Statements and Fund Financial Statements (see appendix A – alternative option 2 of Sample Financial Statement for an example of this presentation) or the two statements can be combined using a columnar format that reconciles individual line items from the fund to government-wide statements. The later format (option 1) has been presented as the primary example in the **Sample Financial Statement (SFS)** as it is anticipated that most libraries will choose the 'combined' format. In addition, the following discussion will assume the combined method is used unless otherwise indicated.

If separate statements are presented (option 2), a reconciliation of total fund balances and total changes in fund balances and net assets and the change in net assets must be presented at the bottom of the Fund Financial Statements or in a schedule on the page immediately following each statement. If combined using the reconciling columnar format (option 1), the reconciliation must still be presented in the notes to the financial statements.

A) WHY IS A NEW FINANCIAL STATEMENT MODEL NEEDED?

The focus of the traditional reporting format is on current financial resources and is embodied in the *modified accrual basis of accounting*. It provides information about the accountability of the sources and uses of funds. This method of reporting focuses on the Library's accountability for the financial resources provided by its constituents.

The purpose of the new financial statement model is to provide information about both the Library's current financial and total economic resources. The new financial statement model will supplement current reporting perspectives with additional information about the Library's total economic resources. This will allow Library management and financial statement readers a more comprehensive way to measure the cost of providing services and to determine whether the current taxpayers and patrons have paid the full cost of those services. The perspective of total economic resources is embodied in the *full accrual basis of accounting*.

The following example will help to illustrate the difference between "current financial" and "total economic" resources. If the Library uses cash to build a new wing on its building to use as a computer center, how does this change its net worth (or equity)? Looking at it from the current financial resources perspective, one person might say that the equity has been reduced, since you now have that much less available to do other things (such as buy new collections, hire additional staff, etc.). On the other hand, looking at it from the total economic resources perspective, another person might say that the net worth has not changed at all - both the cash and the computer wing are assets that will benefit patrons - you have simply replaced one asset with another and the Library's equity remains unchanged. However, the two bases of reporting result in widely disparate amounts reported for fund balance/net worth/equity. The new reporting format brings those together and reconciles the results.

B) EFFECTIVE DATES OF IMPLEMENTATION

There are three phases of required implementation dates. The timing depends on the revenue of the library, unless the library is a component unit of another governmental entity. Libraries that are component units must implement in the same year as their primary government. For other libraries, implementation is based on revenues in the first fiscal year ending after June 15, 1999:

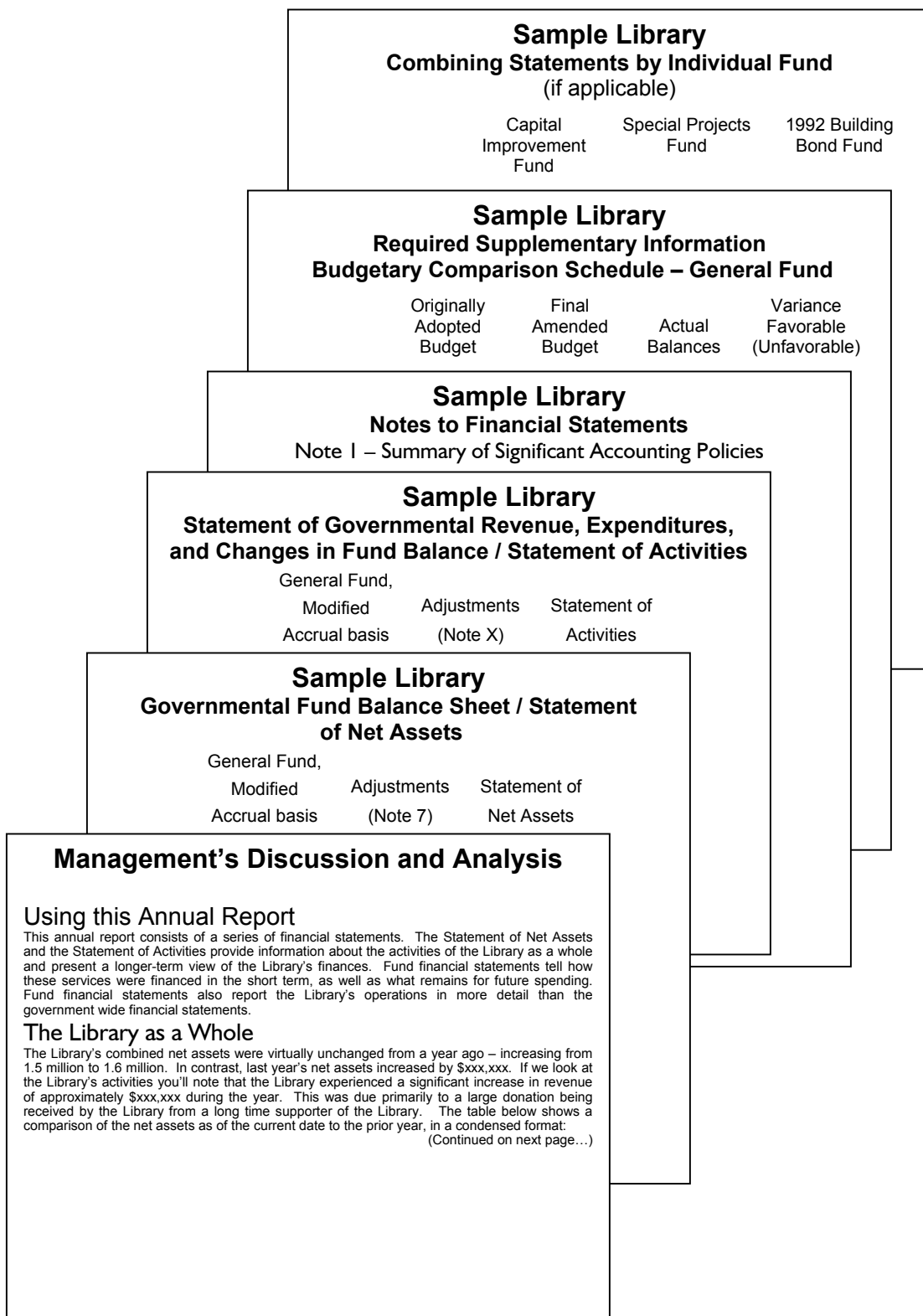
- Phase 1 Libraries - revenues greater than \$100 million
 - Fiscal years beginning after June 15, 2001
- Phase 2 Libraries - revenues less than \$100 million but greater than \$10 million
 - Fiscal years beginning after June 15, 2002
- Phase 3 Libraries - revenues less than \$10 million
 - Fiscal years beginning after June 15, 2003

C) OVERVIEW

- The Fund Financial information column will continue to be presented on the modified-accrual basis of accounting. The new Government-wide Financial information column will be presented on the full-accrual basis of accounting.
 - Note: Two sets of books will not need to be maintained in order to present information on both the full-accrual and modified-accrual basis of accounting. The reconciling items between these two methods can typically be generated at year end. Libraries should continue to perform their day-to-day accounting as they are currently doing.
- Under the full-accrual basis of accounting, capital assets will be capitalized and depreciated.
- Under the full-accrual basis of accounting, long-term liabilities (including bonds payable and long-term accrued compensated absences) will be recorded in the funds versus in a separate account group.
- For libraries with more than two funds, the reporting focus becomes “Major Funds” versus “Fund Types.”
- The Budgetary Comparison Schedule (see SFS page 20 for example) will report both the “Originally Adopted Budget” and the “Final Amended Budget”, as well as the “Actual” revenue and expenditures.
- A separate variance column showing the difference between the final amended budget and the actual balances is not required; however, it is encouraged.
- The Budgetary Comparison Schedule is required supplementary information for the General Fund and any major funds. Alternatively, the schedule may be presented in the body of the financial statements.
- Budgetary comparison schedules for non-major funds cannot be presented in the body of the financial statements or as RSI. If the library would like to present this information, it may be included in the additional information schedules following RSI.
- Endowment Funds: if the endowment principal is restricted in perpetuity, the fund will be reported as a “Permanent Fund;” otherwise, it will be reported as a Special Revenue Fund. The Permanent Fund is a new fund type under GASB 34.

D) SAMPLE OF TYPICAL COMPONENTS

The following is a sample of the typical components of the new reporting model expected to be used by most libraries:



Management's Discussion and Analysis (MD&A), a new feature of the GASB 34 reporting model, is the first component of the financial statements. MD&A is a narrative discussion, written by library management. It should be kept in mind that MD&A will appeal mostly to financial statement users such as citizens, taxpayers, and the media and may be the only component of the general purpose financial statements that they read.

MD&A

- is intended to serve as an overview analysis of the financial condition and operating results of the library.
- is required supplementary information.
- should never repeat information that is presented in the notes, but rather augment the disclosures and add a perspective that cannot otherwise be presented.
- will primarily be in a narrative format; however, it should be supplemented with graphs, charts, tables, and other graphics to help meet the requirement that it is easily readable.
- must be an objective and fact-based analysis.
- is prepared using information derived from the basic financial statements and facts, conditions, and other information known by management as of the date of the auditor's report.
- must present both the positive and negative aspects of the library's financial statements.

Required Elements of MD&A

There are several required elements of MD&A; however, some elements will not apply to all libraries. Libraries can provide additional details about each of the required topics; however, information that does not address a required topic should *not* be included in MD&A.

The required elements are as follows:

1. Brief discussion of the basic financial statements
 2. Condensed comparative financial information ♣
 3. Analysis of the library's overall financial position and results of operations
 4. Analysis of balances and transactions in individual funds
 5. Analysis of significant budget variations
 6. Description of significant capital asset and long-term debt activity
 7. Discussion of currently known facts, decisions, or conditions
- ♣ - In the first year of implementing the new reporting model, comparative information is not required. MD&A should include a statement that, in future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

A) OVERVIEW

Government-wide financial statements are the second component of the new reporting model after MD&A and preceding the fund financial statements (if separate government-wide and fund statements are presented). Government-wide financial statements are prepared using the total economic resources measurement focus and the full accrual basis of accounting. As a result, they report all of the assets, liabilities, revenues, expenses, and gains and losses of the entire library. The government-wide financial statements include:

- Statement of Net Assets
- Statement of Activities

B) STATEMENT OF NET ASSETS (NET ASSETS = ASSETS - LIABILITIES)

The Statement of Net Assets is designed to display the financial position of the library. It is similar to a Balance Sheet; however, this statement reports the components and balances of the library's net economic resources at year end that can be used to provide future services. This statement is presented on the full accrual basis of accounting, and therefore, includes all capital assets and long-term debt.

The following formatting issues are specific to the Statement of Net Assets (See the last column of the SFS on page 8 for example):

- There are two acceptable formats for this statement
 1. Assets – Liabilities = Net Assets (preferred method)
 2. Assets = Liabilities + Net Assets
- Assets and liabilities should be presented in order of liquidity (how readily an asset or liability is expected to be converted to cash (or to use cash)).
- Net Assets must be reported in three components:
 1. Invested in capital assets, net of related debt – capital assets, less accumulated depreciation, and reduced by the outstanding balances of debt attributable to assets. Unspent bond proceeds should not be included in this category; however, they should be considered restricted.
 2. Restricted - generally refers to constraints placed on the library by third parties (creditors, grantors, donors, etc.) or imposed by law through constitutional provisions.
 3. Unrestricted - items that do not meet the above categories. Designations of unrestricted net assets are not permitted to be reported on the face of the financial statements, but may be disclosed in the notes.

C) STATEMENT OF ACTIVITIES

The Statement of Activities is designed to report the results of the library's operations (change in net assets). The statement is similar to the current reporting format; however, it must be reported on the full accrual basis of accounting. This means that items such as bond principal payments and purchases of capital assets will not show as expenses on the Statement of Activities. See the Statement of Activities presented in the last column of the SFS on page 9.

Libraries that have significant program revenues or business-type activities will be subject to more extensive changes than other libraries; these situations are rare and, therefore, are not addressed in this manual.

Contributions to Term and Permanent Endowment and Permanent Fund Contributions

Contributions to term and permanent endowments and permanent fund principal are to be reported in a separate category at the bottom of the statement. Term endowments provide resources (a corpus) that cannot be used for a specific period of time. Permanent endowments provide a corpus that can never be used.

Extraordinary and Special Items

Because of their nature, extraordinary and special items should also be reported in a separate category after endowment and permanent fund contributions.

- Extraordinary Items are transactions or other events that are both “unusual in nature” and “infrequent in occurrence.” Accounting Principal Board (APB) Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, paragraph 20, defines these terms as follows:
 - a. *Unusual nature* - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
 - b. *Infrequency of occurrence* - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.
- Special Items are significant transactions or other events within the control of management that are either “unusual in nature” or “infrequent in occurrence.” Special item reporting was introduced for the first time by GASB 34 and is used to highlight significant one-time financing measures, such as certain sales of capital assets.

A) OVERVIEW

Fund financial statements are the third component of the new reporting model after MD&A and the government-wide financial statements.

The primary purpose of the fund financial statements is to maintain accountability of raising and using public funds. Other objectives of fund-based reporting include the following:

- Provide information about the sources and uses of current financial resources;
- Provide information about how the governmental entity met its cash requirements; and
- Show legal or contractual restrictions on resources and risks of potential loss of resources.

The required financial statements include the presentation of a *Balance Sheet* (with reconciliation to Government-wide Statement of Net Assets) and a *Statement of Revenue, Expenditures, and Changes in Fund Balance* (with reconciliation to Government-wide Statement of Activities).

The format and content of the statements have remained substantially intact; however, the following is a summary of changes instituted by GASB 34:

- A focus on *major funds*, rather than *fund type*

Individual funds will continue to be reported within the Fund Financial Statements; however, the Government-wide Financial Statements will focus on “major” and “non-major” funds. Separate columns will now be presented for each major fund and all non-major funds will be aggregated and reported in a single column on the government-wide statements. The Local Audit and Finance Division of the Michigan Department of Treasury will require combining statements for non-major funds as other supplementary information.

Major fund test:

The General Fund of the library will always be considered a major fund. There is a mathematical formula to determine which of the remaining funds are major. It is a two-step test; however, for most libraries, the second test will not be applicable.

Total assets, liabilities, revenues, or expenditures/expenses of the individual fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all funds.

If the library has an Enterprise Fund, there is a second step to the major fund test and you should consult your auditor for additional guidance.

- Fund balance for non-major funds must be reported by fund type (special revenue, debt service, capital projects, and permanent funds) to identify their nature. This is the only carry-over of fund type information in the new reporting model.

- Account groups are no longer used. General long-term governmental liabilities and capital assets are reported only in the government-wide statement of net assets.
- Required reconciliation to display how total fund balance and total changes in fund balance have been adjusted to reflect the amounts reported in the government-wide financial statements. The reconciliations assist users in understanding the relationship between the individual funds and the government as a whole.
- Extraordinary and Special items are reported at the bottom of the statement after transfers and other financing sources and uses.

B) BALANCE SHEET

The following represents format requirements of the Balance Sheet (with reconciliation to Government-wide Statement of Net Assets):

- The balance sheet must be presented in the "Assets = Liabilities + Fund Balance" format.
- All interfund receivables and payables are reported as fund assets and liabilities regardless of the expected repayment term. However, fund balance should be reserved for the noncurrent portion of receivables.
- Fund balances are reported as "reserved" and "unreserved" using the same definitions as the previous reporting model. As indicated, unreserved fund balances of non-major funds should be identified by fund type.

At the fund level, "unreserved" fund balance may still be designated to indicate management's or the legislative body's tentative planned uses of fund balance. Please refer to the chapter discussing "Fund balance" for further discussion.

It is important to understand that "reserved" fund balances in the fund financial statements are different than "restricted" net assets reported in the government-wide financial statements.

"Reserved" is "modified accrual" terminology, which typically means that resources are not available for spending because of a limitation placed on them (by law or by grantors) or because they are not cash (e.g., inventories).

"Restricted" is "full accrual" terminology that generally refers to constraints placed on the government by third parties or enabling legislation.

Although they are determined differently, there may be some overlapping in that some items may be reserved at the fund level, and restricted at the government-wide level.

C) STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

The following represents format requirements of the Statement of Revenue, Expenditures, and Changes in Fund Balances (with reconciliation to Government-wide Statement of Activities). Format requirements are as follows:

- Revenues are to be presented by major source and expenditures are classified by function (at a minimum). For most libraries, expenditure classification will consist of only one function (library services - operations) with additional captions for capital outlay and debt service (see pages 9 and 10 of the SFS for examples).
- The face amount of debt issued is required to be presented as an other financing source as is any debt premium or discount. Debt issuance costs are reported as expenditures and not as an other financing use.
- Sales of capital assets are reported as other financing sources unless they qualify as special or extraordinary items (as previously discussed).

D) BUDGETARY COMPARISON SCHEDULE (BUDGET-TO-ACTUAL COMPARISON)

A budget-to-actual comparison is required supplementary information for the general fund and any major funds. Alternatively, the schedule may be presented in the body of the financial statements. However, budgetary comparison schedules for non-major funds cannot be presented in the body of the financial statements or as RSI. If the Library would like to present this information, it may be included in the additional information schedules following RSI.

The following columns are required as part of the budgetary comparison schedules:

- Original budget as adopted by the Library Board
- Final amended budget, as approved by the Board
- Actual balances

A separate variance column showing the difference between the final amended budget and the actual balances is not required; however, it is encouraged.

The schedule should be reported on the same format as the library's Statement of Revenue, Expenditures, and Changes in Fund Balances (modified accrual basis), which would include budgeted amounts for capital purchases and debt principal payments. The budget-to-actual comparison should be presented in the same format as was presented when the budget was adopted.

E) RECONCILIATION TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

As previously discussed, the Government-wide and Fund Financial Statements can be presented separately, or as a single statement. In either situation, a reconciliation between the two statements must be included as a part of the financial statements. See SFS pages 24 and 26 for examples of the reconciliation format when the two statements are presented separately. For most libraries, the use of the single statement will likely be preferable due to the condensed presentation.

The reconciliations should be highly aggregated and brief. However, the reconciliation should be sufficiently descriptive to allow users to assess the relationship between the statements - to understand the nature of the changes required. For this reason, more detailed information should be provided in the notes to financial statements if aggregation obscures the nature of the individual elements of a particular reconciling item.

The following is a list of typical reconciliation items:

Balance Sheet Reconciliation

- Reporting capital assets at their historical cost and depreciating them instead of reporting capital acquisitions as expenditures when incurred
- Adding general long-term liabilities not due and payable in the current period. For example:
 - Compensated absences
 - Bonds payable
 - Capital lease obligations
 - Notes payable
 - Net pension obligations
 - Claims and judgments
 - Postemployment benefits
- Adding liabilities (accounts and accruals) caused by reporting expenditures on the accrual basis. For example: interest payable
- Adding other assets due to reporting revenue/expenses on the accrual basis. For example:
 - Inventories
 - Bond issue costs
 - Investments in joint venture

Statement of Revenue, Expenditures, and Changes in Fund Balances Reconciliation

- Reporting revenue on the accrual basis. (The “modified accrual” portion will already be reported.)
- Reporting annual depreciation expense instead of expenditures for capital outlays
- Reporting long-term debt proceeds in the statement of net assets as liabilities instead of other financing sources; also, reporting debt principal payments in the statement of net assets as reductions of liabilities instead of expenditures
- Reporting expenses on the accrual basis. (The “modified accrual” expenditures portion will already be reported.)

The GASB 34 note disclosure requirements fall into the following broad categories:

- Significant accounting policies
- Capital assets
- Long-term liabilities
- Other

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to the significant accounting policy disclosures required under the current reporting model, GASB 34 requires the following (as applicable):

1. A description of the government-wide financial statements
2. The measurement focus and basis of accounting used in the government-wide statements
3. The policy for eliminating internal activity in the statement of activities
4. The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense)
5. The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available

B) CAPITAL ASSETS

The note disclosures should include the major classes of assets (e.g., land, buildings, collection, office equipment, etc.) and segregate assets between those that are depreciated and those that are not. The following should also be presented for the major classes of capital assets:

- Beginning and end-of-year balances with accumulated depreciation presented separately from historical cost
- Capital acquisitions
- Sales or other dispositions
- Current-period depreciation expense with disclosure of the amounts charged to each of the functions in the statement of activities

For works of art and historical treasures that are not capitalized (see page 11.19, below), the notes should provide a description of the collection and the reason why it was not capitalized.

C) LONG-TERM LIABILITIES

The note disclosures should also include information about the library's major classes of long-term liabilities reported in the statement of net assets. The disclosures should be segregated between long-term debt (e.g., bonds, notes, etc.) and other liabilities (e.g., compensated absences, claims and judgments, etc.).

Disclosures should also present the following for all long-term liabilities:

- Beginning balance
- Increases (e.g., new bonds issued, etc.)
- Decreases (e.g., principal payments, refundings, etc.)
- Ending balance
- Portion of each ending balance due within one year

D) OTHER DISCLOSURES

- Change in Accounting Principle - During the first year of implementation, the notes to the financial statements should include information about the adoption of GASB 34. This information should include how the beginning net assets figures were derived.
- Donor-restricted Endowments - Governments are required to disclose certain information in the notes to the financial statements about donor-restricted endowments.
- Detail Information on the Reconciliation between the Fund and Government-wide Statements - A summary reconciliation between the fund financial statements and government-wide financial statements may be presented at the bottom of the fund financial statements or in an accompanying schedule. However, if the aggregation of the reconciling information in the summary obscures the nature of the detailed elements, the detailed information should be disclosed in the notes to the financial statements.

See the sample financial statement provided for examples of note disclosures.

One of the most asked-about changes as a result of implementing GASB Statement No. 34 is about capital assets and the related depreciation. This is a new concept for many libraries.

A) CAPITAL ASSETS DEFINED

Capital assets include land, improvements to land, easements, buildings, building improvements, office equipment, vehicles, books, audio/visual material, other collection items, works of art and historical treasures, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

At transition, there is a two-phase process in determining the amount to capitalize relating to existing assets. The first phase is determining the cost valuation of the assets and the second phase is calculating the accumulated depreciation from the acquisition date to the transition date.

B) DETERMINING COST VALUATION OF CAPITAL ASSETS

Capital assets should be reported at historical cost. Donated capital assets should be reported at their estimated value at the time of the donation. The cost of a capital asset should include expenditures necessary to place the asset into its intended location and condition for use. For example, if the library is constructing a new building, the engineering costs in developing the plans should be capitalized in the cost of the building because the fees were necessary for putting the building into service.

Historical cost for existing assets can be determined from the following sources:

- Financial statements
- Catalog system
- Bibliographical/Circulation software (some current software already captures cost data)
- Budget documents
- Board minutes
- Bond documents
- Insurance policies
- Accounting records
- Current replacement value, deflated back to the year of purchase

If historical cost cannot be obtained, it is allowable to use a reasonable estimate.

C) EXAMPLES

The process of determining which assets should be capitalized will vary depending on the type and size of a library. The amount of certain capital items (individually or in total) to the total of all capital assets should be considered when determining which assets it makes sense to capitalize. The following are a few examples to help illustrate:

Example A

Library A is a small district library. The estimated value of the library's furniture and equipment is \$25,000. The sole building used by the library is leased under an operating lease and is valued at \$500,000. Total library collections consist of 3,000 items and are estimated to be worth \$30,000 (or \$10 per item). In addition, the library has \$10,000 of miscellaneous supplies that are not anticipated to benefit the library after one year. Total library assets (excluding capital assets) amount to \$20,000 and annual expenditures were \$50,000.

Example B

Library B is a moderate district library with two branches. The estimated value of the library's furniture and equipment is \$500,000. In addition, the library buildings have an estimated value of \$4,000,000. Total library collections consist of 30,000 items and are estimated to be worth \$300,000 (or \$10 per item). Total library assets (excluding capital assets) amount to \$200,000 and annual expenditures were \$1,000,000.

Example C

Library C is a school library. The estimated value of the library's furniture and equipment is \$500,000. The library building, which is separate from the School, has an estimated value of \$4,000,000. Total library collections consist of 30,000 items and are estimated to be worth \$300,000 (or \$10 per item). The total estimated value of the School's capital assets (including the library's assets) is estimated to be \$200,000,000. Total library assets (excluding capital assets) amount to \$200,000 and annual expenditures were \$1,000,000. Total assets (excluding capital assets) and expenditures of the School are \$10,000,000 and \$25,000,000, respectively.

What assets should each of the libraries capitalize and depreciate?

Answer A

Because of the significance of the library's capital assets to its total assets and the impact of depreciation on total expenditures, the library collections and equipment should both be capitalized and depreciated. Although the collections individually are small (\$10 per item), the aggregate amount of the collections would be a significant portion (55%) of the total capital assets. The misc. supplies do not have a useful life of greater than 1 year; therefore, they should be expensed and not capitalized as a capital asset. The library building should also not be capitalized since it is not an asset that the library owns.

Answer B

Again, because of the significance of the capital assets as compared to the total assets and the impact that depreciation would have on total expenditures, the buildings, equipment, and collections would most likely all be capitalized. However, one might argue that exclusion of the library collections from the capital assets would not have a significant effect on the total assets or expenses recorded in the Statement of Net Assets and Activities. As a result, the collections could be excluded from capital assets and continue to be expensed.

Answer C

In example C, the library is part of a much larger organization. Assuming the library is not required to, and does not, issue a separate financial statement from the School, the evaluation of the need to record the assets should be evaluated at the total School level and not based on the Library individually. As a result, it is possible that the equipment and collections would not need to be recorded as capital assets and depreciated, since they collectively would make up less than .05% of the school's total assets. However, practically speaking we would expect that the Library would capitalize and depreciate these assets.

As you can see, the determination of what assets should be capitalized and depreciated will depend on many factors including the size and type of library. We suggest that you consult with your auditors for additional guidance on this matter before beginning the process of accumulating the information necessary to determine the appropriate capital assets that should be recorded.

D) DEPRECIATION

Under the full accrual method of accounting, capital assets are economic resources that are used over a period of time. For this reason, it is appropriate to expense (depreciate) the asset over that same period of time to measure the true cost against the resources it provides. Land and certain works of art and historical treasures, as discussed below, are not depreciated.

The first step in calculating depreciation expense is to determine the useful life of the asset in question. If you are trying to match the expense with the benefits of the asset, you need to figure out how long the asset will benefit the library.

Useful lives can be determined using the following sources of information:

- Vendors
- Historical information about similar assets
- General guidelines provided by auditors, engineers, and other professionals
- Capital replacement budgets

Depreciable lives established by federal and state tax regulations are generally not intended to represent useful lives and should **not** be used.

The next step in calculating depreciation expense is to select a depreciation method. There are a variety of methods available; however, no specific method is required. The following are examples of methods of depreciation:

1. Straight-line method, which assumes the asset is used up equally over its useful life
2. Double-declining balance method, which assumes that more of an asset's value is consumed in earlier years (example: a high-tech computer would be more valuable early in its use; however, as technology changes, it may become less valuable over time.)
3. Units of production/service methods, which allocate the depreciable cost of an asset over its expected output (example: a copy machine which is heavily used will have a shorter useful life in years than one of equal quality which is sparingly used; however, both machines probably have the same useful lives in terms of the number of copies that they produce.)

Although the GASB does not recommend a specific method, most libraries will likely use the straight-line depreciation method because it is easy to use, tends to smooth expenses over time, and reduces the complexity of applying other methods.

E) WORKS OF ART AND HISTORICAL TREASURES

Works of art, historical treasures, and similar assets should be capitalized at their historical costs or fair value at date of donation unless they meet all of the following conditions:

- a) Collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain,
- b) Protected, kept unencumbered, cared for, and preserved, and
- c) Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

If collections are not capitalized, a description of the collection and the reasons these assets are not capitalized should be disclosed in the financial statements.

Donations of works of art, historical treasures, and similar assets should be recognized as revenue. When donated collection items are added to *noncapitalized* collections, governments should recognize expense equal to the amount of revenue recognized.

Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

NOTE: Collections that are already capitalized should remain as such, and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization.

F) CAPITAL ASSET TIPS

- Given that the administrative requirements for maintaining capital assets have increased, consider reviewing/setting a capitalization policy. It may not be appropriate to capitalize and depreciate minor items.
- Depending on the extensiveness of the library's list of assets and the complexity of the depreciation method selected, there are different ways to keep track of the assets and related depreciation. A spreadsheet is one way to keep track of the listing, and formulas can be used to calculate the depreciation expense each year. There are also a variety of fixed asset software programs that are available for purchase.

A) IMPLEMENTATION ISSUES

Budgeting - Because the financial statement retains the current fund-based statements on the modified accrual basis, governments should **not** have to change their budgeting practices.

Accounting System - Because GASB 34 retains the current fund-based statements on the modified accrual basis for governmental funds, libraries should **not** significantly change their current accounting systems.

Adjustments to full accrual - Some of the information and data that will need to be accumulated to calculate these adjustments include the following:

- Identify capital outlay (so that it can be eliminated for the full accrual statement)
- Depreciate capital assets
- Summarize employee compensated absences (vacation pay and sick pay that are expected to be paid at employment termination) and the current year change in compensated absences
- Identify deferred revenue that should be reported as revenue on a full accrual basis
- Identify debt principal payments (so that they can be eliminated from the full accrual statement)
- Eliminate interfund transactions and balances
- Track both the original budget and the final amended budget amounts

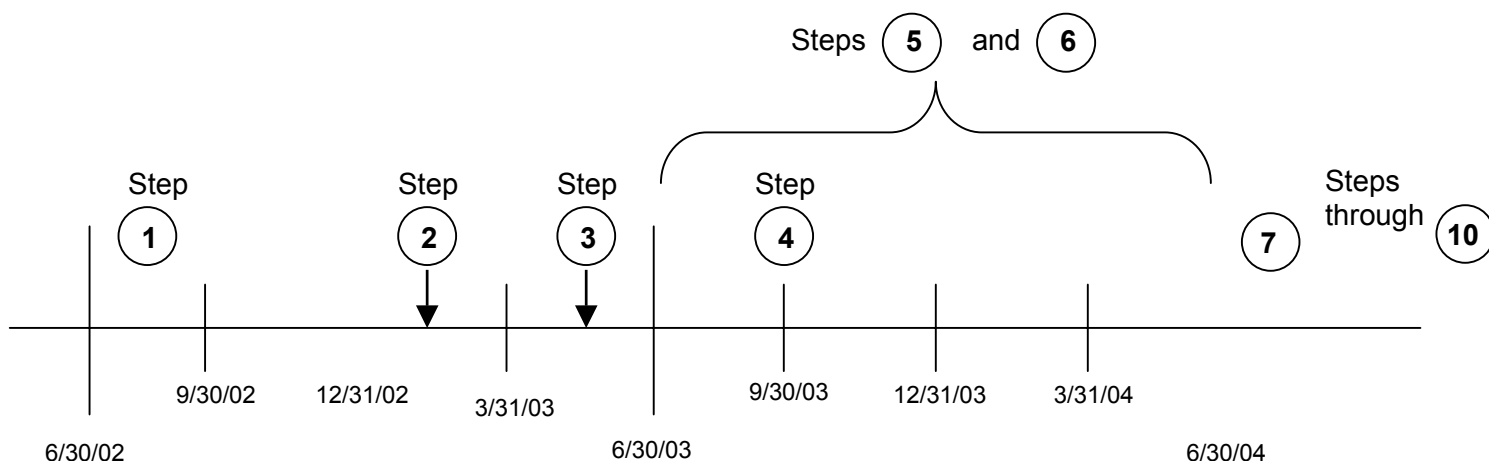
Effects of *not* implementing GASB 34 - Preparation of financial statements that do not fully implement GASB 34 would be considered non-GAAP financial statements and would result in an opinion other than an unqualified opinion (also called a 'clean' opinion) from your auditor. Current communication from the American Institute of Certified Public Accountants (AICPA) indicates that an *adverse opinion* would be required if GASB 34 was not fully implemented. This should be discussed with your auditor. It is possible that an adverse opinion on your financial statements could affect the Library's credit rating and ability to issue bonds.

The following GASB 34 Implementation Checklist should be helpful in determining what your library can do to prepare for the implementation.

ITEM	ASSIGNED TO	DUE DATE	STATUS
Preparation Before First Year of Implementation			
1. Educate legislative body (e.g., Library Board, etc.)			
2. Determine whether the current fund structure needs to change: <ul style="list-style-type: none"> • Can insignificant funds that are no longer serving a useful purpose be eliminated? • Are there business-type activities? Discuss with your auditor. 			
3. Develop an overall plan for the government-wide financial statements: <ul style="list-style-type: none"> • Identify which accruals will be necessary • Determine how full accrual data will be accumulated (separate fund vs. spreadsheets) • Plan how to accumulate capital asset information: <ul style="list-style-type: none"> – Consider updating capitalization thresholds – Consider decentralizing responsibility by assigning the task to each department to annually inventory capital assets and operating supplies 			
4. Create a pro forma financial statement in coordination with outside auditors. Focus on: <ul style="list-style-type: none"> • Identifying which funds are to be reported as "restricted net assets" • Creating beginning of the year balances for the Statement of Net Assets (this is required for the restatement of prior periods in the year of implementation) 			
Implementation			
5. Complete accounting records on modified accrual basis for the governmental funds			
6. Identify accruals, both at the beginning and end of the year, for: <ul style="list-style-type: none"> • Long-term receivables that will be recorded as revenue, net of the allowance for uncollectable amounts • Long-term employee compensated absence liabilities (such as vacation pay) • Long-term debt and accrued interest payable • Capital assets, acquisitions, depreciation, and gain or loss on disposition 			
7. Adjust accounting records for full accrual information (e.g., post to 'GASB 34 fund', spreadsheets, etc.)			
8. Identify which funds are to be reported as major funds (if applicable)			
9. Create government-wide financial statements			
10. Write Management's Discussion and Analysis (MD&A)			

Sample Timeline for GASB 34 Implementation

The following is a sample timeline for a Phase 3 Library with a June 30 year end (GASB 34 implemented for the year ending June 30, 2004). The steps correspond to those in the “GASB 34 Planning and Implementation Checklist.”



State of Michigan
Department of Treasury
Local Audit and Finance Division
P.O. Box 30728
Lansing, Michigan 48909-8228
(517) 373-3227
www.treas.state.mi.us

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
fax-on-demand department: (203) 847-0700, extension 14
www.gasb.org

Sample Public Library

**Financial Report
with Additional Information
June 30, 2004**

Independent Auditor's Letter

Management's Discussion and Analysis

Basic Financial Statements


Governmental Fund Balance Sheet / Statement of Net Assets

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance / Statement of Activities

Notes to Financial Statements

Required Supplementary Information

Budgetary Comparison Schedule - General Fund



The Contents should be modified depending on which option is chosen: Combined Government-wide and Fund Financial Statements as reflected or Separate stmts. as indicated in Appendix A

APPENDIX A – Alternative Option 2

Government-wide Financial Statements:

Statement of Net Assets

Statement of Activities

Governmental Fund Financial Statements:

Balance Sheet

Statement of Revenue, Expenditures, and Changes in Fund Balances

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Independent Auditor's Report

Members of the Library Board
Sample Public Library
Sample, Michigan

We have audited the accompanying basic financial statements of the Sample Public Library as of June 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Sample Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sample Public Library as of June 30, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Sample Public Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Sample Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

(FOR THE YEAR OF TRANSITION ONLY) - As discussed in Note I, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

August 15, 2004

Management's Discussion and Analysis

Brief
discussion
of the
Basic
Financial
Statements

Using this Annual Report

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

The financial information is not required to be comparative in the first year of implementation of GASB 34

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year, in thousands of dollars:

	<u>2004</u>	<u>2003</u>
Current assets	\$ 916.0	\$ 892.0
Capital assets	<u>5,865.0</u>	<u>6,156.7</u>
Total assets	<u>6,781.0</u>	<u>7,048.7</u>
Long-term debt	4,979.0	5,325.5
Other liabilities	<u>269.9</u>	<u>337.9</u>
Total liabilities	<u>5,248.9</u>	<u>5,663.4</u>
Net assets:		
Invested in capital assets, net of debt	915.0	831.2
Restricted for donor-restricted purpose	15.0	-
Unrestricted	<u>602.1</u>	<u>554.1</u>
Total net assets	<u>\$ 1,532.1</u>	<u>\$ 1,385.3</u>
Revenue:		
Property taxes	\$ 870.0	\$ 830.0
Other	<u>206.7</u>	<u>220.6</u>
Total revenue	<u>1,076.7</u>	<u>1,050.6</u>
Expenses - Library services	<u>929.9</u>	<u>932.6</u>
Change in net assets	<u>\$ 146.8</u>	<u>\$ 118.0</u>

The Library as a Whole

- The Library's net assets increased by \$146,800 this year compared to \$118,000 in the prior year. The primary reason for the increase is the continued growth of the Library's property tax base, which increased 4.8 percent from the prior year.
- The Library's primary source of revenue is from property taxes, which represents 81 percent of total revenue as compared to 79 percent in the prior year.
- Salaries and fringes continue to be a significant expense of the Library, representing 38 percent of the Library's total expenses. The addition of two full-time positions at the main library and a 5 percent flat increase in salaries contributed to an increase of \$50,000 in expenses over the prior year.
- Depreciation expense, which represents 38 percent of the Library's total expenses, increased \$120,000 due largely to the first year of depreciation on the new 20,000 sq. foot library building, which was completed at the end of the prior year. In addition, interest expense increased to represent 8.5 percent of total Library expenses due to additional interest on the \$4 million bond issued in the prior year to finance the new library building.
- Total expenses remained constant between prior year and current year, even with the increases in depreciation and interest noted above. In the prior year, the Library contributed \$75,000 to a community development project in which it participated with the City of Sample.

The Library's Fund

Our analysis of the Library's major fund is included on pages 9 and 10 in the first column of the respective statements. The fund column provides detailed information about the most significant fund - not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the current year by \$61,700. The increase was in line with the final amended budget.

Debt service, consisting of principal and interest, was the largest use of resources during the current fiscal year. Debt service has become a significant expenditure as a result of the completion of our new 20,000 sq. foot main library in the prior year, which was financed by a \$4 million bond issue.

Description
of significant
budget
variations

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in contributions and donations, salaries and fringe benefits, and library books and materials.

The increase in the budgeted salaries and fringe benefits was the result of an additional part-time clerk position, which was anticipated to be filled, but remained vacant for the entire year. In addition, the budgeted amounts were amended for the continued rising costs of health care.

The increase in the budgeted amounts for contributions and donations and library books and materials was the result of the receipt of a \$35,000 donation, a portion of which was anticipated to be spent during the fiscal year on library collections. The donation was restricted by the donor for the purpose of expanding our music and audio/visual collection. Approximately \$20,000 of this contribution was spent prior to year end for its restricted purpose. In order to take advantage of vendor discounts, the Library purchased \$10,000 of additional audio/visual equipment than had been anticipated in the amended budget.

Capital asset
and long-
term debt
activity

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$5.9 million invested in land, building, furniture and equipment, and books and materials. The Library added \$98,700 in new collection items consisting of new books, various audio/visual materials, and enhancement of the music collection. Approximately 12,000 items were either disposed of or donated to the Friends of the Library. The total amount of collection materials disposed had a cost basis of \$188,000, which had a net book value of \$30,000.

The Library's debt rating is excellent. No debt was issued during the fiscal year. The Library's bonded indebtedness totaled \$4,950,000 at June 30, 2004.

Next Year's Millage Rates

Discussion of
currently known
facts, decisions,
or conditions

On July 29, 2004, the Library Board approved an additional millage of .5 mills per thousand dollars of taxable value to service bonded indebtedness. In addition, the Board approved a resolution to create a separate Debt Service Fund, a governmental fund type, to account for the revenue and expenditures. Based on the current taxable value of property in the Library's district, this will generate \$435,000 in additional property tax revenue.

Sample Public Library




Governmental Fund Balance Sheet / Statement of Net Assets June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 7)	Statement of Net Assets
Assets			
Cash and cash equivalents (Note 2)	\$ 684,000	\$ -	\$ 684,000
Investments (Note 2)	232,000	-	232,000
Fixed assets (Note 3)	-	5,865,000	5,865,000
Total assets	<u>\$ 916,000</u>	<u>\$ 5,865,000</u>	<u>6,781,000</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 210,000	\$ -	\$ 210,000
Accrued interest payable	-	59,900	59,900
Long-term liabilities (Note 4):			
Bonds payable, due within one year	-	425,000	425,000
Bonds payable, due after one year	-	4,525,000	4,525,000
Accumulated employee benefits	-	29,000	29,000
Total liabilities	<u>210,000</u>	<u>5,038,900</u>	<u>5,248,900</u>
Fund Balance/Net Assets			
Fund balance - Unreserved:			
Designated for capital improvement	227,000	(227,000)	-
Undesignated	479,000	(479,000)	-
Total fund balance	<u>706,000</u>	<u>(706,000)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 916,000</u>		
Net assets:			
Invested in capital assets, net of related debt		915,000	915,000
Restricted for donor-restricted purpose		15,000	15,000
Unrestricted		602,100	602,100
Total net assets		<u>\$ 1,532,100</u>	<u>\$ 1,532,100</u>

Format (Option 1):

- Combined Fund and Government-wide Financial Statement Format
- Assets = Liabilities + Fund Balance for the first column (Balance Sheet)
- Assets – Liabilities = Net Assets for the last column (Statement of Net Assets)

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities Year Ended June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 7)	Statement of Activities
Revenue			
Property taxes	\$ 870,000	\$ 	\$ 870,000
Single business tax	15,600		15,600
State aid	26,000		26,000
Penal fines	29,000	-	29,000
Interest on investments	62,500	-	62,500
Contributions and donations	19,900	-	19,900
Library fines and fees	36,000	-	36,000
Other miscellaneous	17,700	-	17,700
Total revenue	1,076,700	-	1,076,700
Expenditures			
Salaries and fringe benefits	350,000	3,500	353,500
Supplies	21,650	-	21,650
Library books and materials	98,700	(98,700)	-
Professional and contractual services	28,500	-	28,500
Conferences, workshops, and travel	22,350	-	22,350
Insurance and bonds	15,000	-	15,000
Utilities	44,000	-	44,000
Building repair and maintenance	9,750	-	9,750
Capital outlay	5,700	(5,700)	-
Depreciation	-	355,800	355,800
Debt service:			
Principal	350,000	(350,000)	-
Interest	69,350	10,000	79,350
Total expenditures	1,015,000	(85,100)	929,900
Excess of Revenue Over Expenditures/Change in Net Assets	61,700	85,100	146,800
Fund Balance/Net Assets - Beginning of year	644,300	741,000	1,385,300
Fund Balance/Net Assets - End of year	<u>\$ 706,000</u>	<u>\$ 826,100</u>	<u>\$ 1,532,100</u>

 - See Note 7 for additional information.

Format (Option 1):

- Combined Fund and Government-wide Financial Statement Format

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities Year Ended June 30, 2004

	General Fund, Modified Accrual Basis	Adjustments (Note 7)	Statement of Activities
Expenditures/Expenses			
Library services - operations:			
Personnel	\$ 350,000	\$ 3,500	\$ 353,500
Library services	120,350	(98,700)	21,650
Facilities and equipment	68,750	355,800	424,550
Other operating	50,850	-	50,850
Capital outlay	5,700	(5,700)	-
Debt service:			
Principal	350,000	(350,000)	-
Interest	69,350	10,000	79,350
	<u>1,015,000</u>	<u>(85,100)</u>	<u>929,900</u>
Total expenditures / expenses			
	<u>1,015,000</u>	<u>(85,100)</u>	<u>929,900</u>
Program Revenue - Charges for services	<u>36,000</u>	<u>-</u>	<u>36,000</u>
Net Program Expense			893,900
General Revenue			
Property taxes	870,000	-	870,000
Single business tax	15,600	-	15,600
State aid	26,000	-	26,000
Penal fines	29,000	-	29,000
Interest on investments	62,500	-	62,500
Contributions and donations	19,900	-	19,900
Other miscellaneous	17,700	-	17,700
	<u>1,040,700</u>	<u>-</u>	<u>1,040,700</u>
Total general revenue			
	<u>1,040,700</u>	<u>-</u>	<u>1,040,700</u>
Excess of Revenue Over Expenditures	61,700	(61,700)	-
Change in Net Assets	-	146,800	146,800
Fund Balance/Net Assets			
Beginning of year	<u>644,300</u>	<u>741,000</u>	<u>1,385,300</u>
End of year	<u>\$ 706,000</u>	<u>\$ 826,100</u>	<u>\$ 1,532,100</u>

This example would be used typically by a Library that is a component unit of a larger governmental entity (i.e. City or School Library).

Note I - Nature of Organization and Summary of Significant Accounting Policies

[Only those notes to the financial statement that were significantly affected by GASB 34 have been presented. Refer to the "Uniform Reporting Format for Financial Statements for Counties And Local Units Of Government In Michigan" available from the Michigan Local Audit & Finance Division Bureau of Local Government Services for additional footnote disclosure examples]

The accounting policies of Sample Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Library's activities
- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting Entity

The Library is located in the City of Sample, Michigan and is governed by an elected seven-member board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. [For the most part, the effect of interfund activity has been removed from the statements] *[Delete if the Library is not a component unit of a larger governmental entity i.e., (City or School or delete in its entirety if the Library has no other funds)]*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Will need to be edited depending on type of Library and if other major funds exist.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within **XX** days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

[Briefly describe the major revenue types for which receivables are recorded on the current balance sheet. For example: Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period.] All other revenue items are considered to be available only when cash is received by the Library.

Will need to be edited depending on type of Library and if other major funds exist.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

[Briefly describe any additional major funds. For example: the Library Debt Service Fund accounts for the resources associated with taxes levied specifically for the retirement of the Library's bonded indebtedness.]

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

These paragraphs should be modified to discuss applicable categories.

Bank Deposits and Investments - The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

The Library has a collection of art work presented for public exhibition and education that is being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. The collection is not capitalized or depreciated as part of capital assets.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

Note 2 - Deposits and Investments

(No changes as a result of GASB 34.)

Sample Public Library

Notes to Financial Statements June 30, 2004

Note 3 - General Fixed Assets

A summary of changes in general fixed assets is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Assets not being depreciated -				
Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Other capital assets:				
Building	5,902,000	-	-	5,902,000
Furniture and equipment	908,300	5,700	13,700	900,300
Library books and materials	2,356,000	98,700	188,000	2,266,700
Total	9,236,300	104,400	201,700	9,139,000
Accumulated depreciation	(3,079,600)	(355,800)	(161,400)	(3,274,000)
Net book value	<u>\$ 6,156,700</u>	<u>\$ (251,400)</u>	<u>\$ 40,300</u>	<u>\$ 5,865,000</u>

Note 4 - Long-term Debt

Outstanding Debt

A summary of the debt outstanding of the Library at June 30, 2004 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Bonds payable - General obligation bonds	\$ 5,300,000	\$ -	\$ (350,000)	\$ 4,950,000	\$ 425,000
Other long-term liabilities - Compensated absences	25,500	3,500	-	29,000	3,000
Total long-term debt and other long-term liabilities	<u>\$ 5,325,500</u>	<u>\$ 3,500</u>	<u>\$ (350,000)</u>	<u>\$ 4,979,000</u>	<u>\$ 428,000</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

Note 4 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding employee benefits), including both principal and interest, are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2005	\$ 711,950
2006	709,375
2007	679,375
2008	299,375
2009	293,875
2010 and after	<u>4,762,875</u>
Total	<u>\$ 7,456,825</u>

Interest

Interest expense of the Library for the year ended June 30, 2004 approximated \$79,000.

Note 5 - Stewardship, Compliance and Accountability

(No changes as a result of GASB 34.)

Note 6 - Risk Management

(No changes as a result of GASB 34.)

Note 7 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 706,000
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	5,865,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,950,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(59,900)
Compensated absences are included as a liability	<u>(29,000)</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 1,532,100</u>

Note 7 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified Accrual Basis	\$ 61,700
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	98,700
Capital outlay	5,700
Depreciation	(355,800)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(3,500)
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Increase in accrued interest reported as an expenditure in the statement of activities, but not in the fund statements	(10,000)
--	----------

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>350,000</u>
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Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 146,800</u>
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Note: There may be the need for additional reconciling items. The following are a few additional items that Library may typically encounter in the reconciliation:

- Delinquent property taxes
- State Aid/Single Business tax
- Penal fines
- Grant revenues

Sample Public Library

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property tax	\$ 865,000	\$ 870,000	\$ 870,000	\$ -
Single business tax	15,000	15,000	15,600	600
State aid	24,950	26,000	26,000	-
Penal fines	25,000	29,000	29,000	-
Interest on investments	40,000	36,000	32,500	(3,500)
Contributions and donations	15,800	47,500	49,900	2,400
Library fines and fees	30,050	34,000	36,000	2,000
Other miscellaneous	12,200	18,000	17,700	(300)
Total revenue	1,028,000	1,075,500	1,076,700	1,200
Expenditures				
Salaries and fringe benefits	345,000	359,000	350,000	9,000
Supplies	18,000	19,850	21,650	(1,800)
Library books and materials	80,000	91,000	98,700	(7,700)
Professional and contractual services	25,500	28,600	28,500	100
Conferences, workshops, and travel	19,800	22,000	22,350	(350)
Insurance and bonds	13,500	15,700	15,000	700
Utilities	43,550	43,550	44,000	(450)
Building repair and maintenance	15,000	10,000	9,750	250
Capital outlay	7,500	6,350	5,700	650
Debt service	419,350	419,350	419,350	-
Total expenditures	987,200	1,015,400	1,015,000	400
Excess of Revenue Over Expenditures	40,800	60,100	61,700	1,600
Fund Balance - Beginning of year	644,300	644,300	644,300	-
Fund Balance - End of year	<u>\$ 685,100</u>	<u>\$ 704,400</u>	<u>\$ 706,000</u>	<u>\$ 1,600</u>

APPENDIX A – Alternative Option 2

Sample Public Library

Statement of Net Assets June 30, 2004

Assets

Cash and cash equivalents (Note 2)	\$ 684,000
Investments (Note 2)	232,000
Fixed assets (Note 3)	<u>5,865,000</u>
Total assets	6,781,000

Liabilities

Accounts payable and accrued liabilities	210,000
Accrued interest payable	59,900
Long-term liabilities:	
Bonds payable, due within one year	425,000
Bonds payable, due after one year	4,525,000
Accumulated employee benefits	<u>29,000</u>
Total liabilities	<u>5,248,900</u>

Net Assets

Invested in capital assets, net of related debt	915,000
Restricted for donor restricted purpose	15,000
Unrestricted	<u>602,100</u>
Total net assets	<u>\$ 1,532,100</u>

Format (Option 2):

- Government-wide Financial Statement Format
- A separate Fund Financial Statement will follow, with a reconciliation of the two statements
- Assets – Liabilities = Net Assets

**Statement of Activities
Year Ended June 30, 2004****Revenue**

Property taxes	\$ 870,000
Single business tax	15,600
State aid	26,000
Penal fines	29,000
Interest on investments	62,500
Contributions and donations	19,900
Library fines and fees	36,000
Other miscellaneous	17,700
Total revenue	1,076,700

Expenses

Salaries and fringe benefits	353,500
Supplies	21,650
Professional and contractual services	28,500
Conferences, workshops, and travel	22,350
Insurance and bonds	15,000
Utilities	44,000
Building repair and maintenance	9,750
Depreciation	355,800
Interest on bonds	79,350
Total expenditures	929,900

Change in Net Assets 146,800

Net Assets - Beginning of year 1,385,300

Net Assets - End of year \$ 1,532,100

Format (Option 2):

- *Government-wide Financial Statement Format*
- *A separate Fund Financial Statement will follow, with a reconciliation of the two statements*

Statement of Activities Year Ended June 30, 2004

Function/Program	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
		Charges for Services	Operating Grants	
Governmental activities - Library services/operations	\$ 929,900	\$ 36,000	\$ -	\$ (893,900)

General Revenue

Property taxes	870,000
Single business tax	15,600
State aid	26,000
Penal fines	29,000
Interest on investments	62,500
Contributions and donations	19,900
Other miscellaneous	17,700

Total general revenue 1,040,700

Change in Net Assets 146,800

Net Assets

Beginning of year	<u>644,300</u>
End of year	<u><u>\$ 791,100</u></u>

This example would be used typically by a Library that is a component unit of a larger governmental entity (i.e., City or School Library).

Sample Public Library

Balance Sheet June 30, 2004

Assets

Cash and cash equivalents (Note 2)	\$ 684,000
Investments (Note 2)	232,000
Total assets	<u>\$ 916,000</u>

Liabilities and Fund Balance

Liabilities - Accounts payable and accrued liabilities	\$ 210,000
Fund Balance - Unreserved	
Designated for capital improvement	227,000
Undesignated	479,000
Total fund balance	706,000
Total liabilities and fund balance	<u>\$ 916,000</u>

Total Fund Balance - Modified Accrual Basis	\$ 706,000
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	5,865,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,950,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(59,900)
Compensated absences are included as a liability	<u>(29,000)</u>

Net Assets of General Fund - Full Accrual Basis	<u>\$ 1,532,100</u>
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Format (Option 2):

- Fund Statement Format

The reconciliation should be included in the footnotes if the Combined Fund and Government-wide Financial Statement reporting format is used.

Sample Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2004

Revenue

Property taxes	\$ 870,000
Single business tax	15,600
State aid	26,000
Penal fines	29,000
Interest on investments	62,500
Contributions and donations	19,900
Library fines and fees	36,000
Other miscellaneous	17,700
Total revenue	1,076,700

Expenditures

Salaries and fringe benefits	350,000
Supplies	21,650
Library books and materials	98,700
Professional and contractual services	28,500
Conferences, workshops, and travel	22,350
Insurance and bonds	15,000
Utilities	44,000
Building repair and maintenance	9,750
Capital outlay	5,700
Debt service:	
Principal	350,000
Interest	69,350
Total expenditures	1,015,000

Excess of Revenue Over Expenditures 61,700

Fund Balance - Beginning of year 644,300

Fund Balance - End of year \$ 706,000

Format (Option 2):

- *Fund Statement Format*
- *See reconciliation of excess of revenue over expenditures to change in net assets on next page*

Sample Public Library

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Modified Accrual Basis	\$ 61,700
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	98,700
Capital outlay	5,700
Depreciation	(355,800)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(3,500)
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Increase in accrued interest reported as an expenditure in the statement of activities, but not in the fund statements	(10,000)
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>350,000</u>
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Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 146,800</u></u>
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The reconciliation should be included in the footnotes if the Combined Fund and Government-wide Financial Statement reporting format is used.